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AGENCY SUPPORT COSTS

Report by the Administrator

INTRODUCTION

1. In paragraph 25 of its decision 90/26 of 22 June 1990 dealing with agency support cost successor arrangements the Governing Council requested the Administrator to submit a progress report to the Council in conjunction with the organizational meeting in February 1991. Furthermore, during informal consultations on the subject with the Council in October 1990, several members requested the Administrator to expand the scope of this progress report to include not only a description of the process being followed but also, to the extent possible, a substantive description of the issues considered and progress achieved. The present report, therefore, is provided in response to those requests and decision 90/26.

2. At the outset, it is important to recognize that Governing Council decision 90/26, combined with other major legislation - in particular General Assembly resolution 44/211 of 22 December 1989, Governing Council decisions 90/21 of 22 June 1990 on national execution and 90/34 of 23 June 1990 on the fifth programming cycle - places the United Nations operational activities on a course of change and reform. While the conceptual foundations of the decision are clear, it is nevertheless a framework decision which requires the Administrator to make detailed proposals to the Council on its implementation. Such proposals were to be formulated on the basis of extensive consultations with specialized and executing agencies of the United Nations and interpretation of the various provisions of the decision. In fact, the decision refers to the need for such consultations in no less than 10 paragraphs (paras. 3, 6, 9, 10, 14, 16, 17, 20, 21 and 23).

3. The Administrator is pleased to report that extensive consultations have been held with the agencies and are in fact continuing. The United Nations Development Programme (UNDP) has engaged in this process of consultation in a spirit of co-operation and with commitment to the concept of partnership, both of which have been reciprocated by the agencies. The discussions took place in various forums, including formal bodies such as the Administrative Committee on Co-ordination (ACC), the Consultative Committee on Substantive Questions (Operational Resources (CCSQ (OPS)) and also in other consultative meetings convened by UNDP. Discussions were held individually with several agencies to deal with issues specific to them as well as collectively on common issues of concern. As decision 90/26 makes a distinction between the five large agencies which are mandated to follow the new régime of support cost arrangements and the other agencies, UNDP has held several consultations with each of the two groups of agencies so as to deal separately with issues relating to each group. The occasions on which UNDP met with agencies either individually or collectively are listed in annex I.

4. In his written communication and oral statements to the Executive Heads and other senior officials of the agencies, the Administrator emphasized some guiding principles for the consultative process and for formulating implementation proposals, as requested, for the Governing Council at its thirty-eighth session (1991). These included:

(a) The necessity to adhere fully to the letter and spirit of the legislation, taking into account particularly the principles enumerated in paragraph 1 of decision 90/26;

(b) The consultations with agencies will be conducted in a spirit of co-operation and candour and with a continuing commitment from UNDP to partnership and to the special relationship linking members of the United Nations system, as well as respect for one another's mandates and responsibilities;

(c) An implicit limitation on the total costs of the successor arrangements in the fifth programming cycle so as not to exceed the amounts which have been earmarked in the financial envelope for fifth cycle resources; and

(d) The need to formulate proposals that are practical and effective and which, when implemented, will achieve the purposes of the legislation.

5. For ease of reference, the present report follows, to the extent possible, the order of the various provisions of decision 90/26. Certain parts of the report will need to be read in conjunction with the annexes, which include the text of the summary of consultations between UNDP and the agencies, prepared at the conclusion of a meeting held in Geneva in November 1990 (annex II) and of another held in New York in December 1990 (annex III).

I. APPLICABILITY OF NEW AND CURRENT REGIME

6. In paragraph 3 of decision 90/26, the Governing Council decided that the five agencies listed in the decision should be subject to the successor arrangements and "that the basic elements of the current régime could continue for the smaller technical agencies and those where the United Nations Development Programme-financed technical co-operation work is slight in the overall work of the agency". The discussions with the five agencies listed in this paragraph centred on the modalities for the operation of the new régime, as further detailed in the text of the present report. As to the other agencies, the discussions with them have revealed that they would all prefer to continue, for the time being, with the current régime. Some of these agencies have, however, indicated that as the modalities for the new régime become clear and some experience is gained in its operation, they would then be interested in having the option of being governed by the provisions of the new régime. The Administrator therefore recommends that further consultations be held with these agencies in the course of 1993 based on the experience gained and that the Council review this issue in 1994. Such a review would also coincide with an evaluation of the new arrangements foreseen in paragraph 23 of decision 90/26.

7. In paragraph 5 of decision 90/26, the Governing Council requested the Administrator to submit proposals to the Council at its thirty-eighth session (1991) on the appropriate application of the successor arrangements to services provided by the Office of Project Services (OPS) to the core programme of UNDP. In the course of the last months, several discussions have been held with the Director of OPS and his staff, during which various proposals have been reviewed, taking into account the fact that a study for a standardized differential rate structure was being undertaken by a consultant firm, in pursuance of paragraph 14 of decision 90/26. Furthermore, OPS has also initiated a survey on the cost of its services, in conjunction with its activities relating to the provision of management services. When the results of these studies become available, it will be possible to formulate proposals on this subject. The Administrator intends, therefore, to submit his recommendations as originally envisaged, to the Council at its thirty-eighth session.

8. In paragraph 6 of decision 90/26, the Governing Council requested the Administrator to ascertain with each agency, its capacity and readiness to provide the requisite services in the sector of its competence and to report to the Council on any needs for the support of capacity that may emerge. The provisions of this paragraph were closely linked to the discussions with the agencies on technical services to be provided at the programme and project levels, as specified in paragraphs 7-10 of the decision. In the course of the discussions, in particular with the five agencies listed in paragraph 3 of the decision, they have all stated their readiness, indeed keen interest, to provide technical services in their respective sectors of competence as called upon in the decision. They also confirmed that they have the capacity to provide these services, subject to the availability of adequate resources.

II. RESOURCES FOR TECHNICAL SERVICES SUPPORT FACILITIES: (TSS-1 and TSS-2)

9. Paragraphs 7-10 of the decision deal, inter alia, with technical services support at the programme level, to be referred to, in short, as TSS-1 and technical services support at the project level, to be referred to as TSS-2. Each of these subjects will be dealt with separately. However, the basic issue of their funding will be dealt with initially in this paragraph. In the course of the consultations with the agencies on the financial provisions for TSS-1 and TSS-2, there were divergences in the interpretation of the legislation. The concerned agencies have stated that, in their view, decision 90/26 has mandated that 2 per cent of total programmable resources should be earmarked for each of these facilities. However, UNDP believes that, taking into account all of the provisions of the decision, relating both to the five agencies subject to the new régime and others which will continue with the current régime, the applicable "programmable resources", in this context, should be that part of the totality of resources which is attributable to the two groups of agencies separately. UNDP further believes that the interpretation offered by the agencies might result in some elements of support costs being computed twice on the same base of resources. This should be so, as the support costs for agencies subject to the current régime (namely those which will continue to be reimbursed at 13 per cent plus flexibility, where applicable), do indeed include remuneration not only for administrative and operational services, but also for technical services. Thus, under the agency interpretation, amounts for technical services for the agencies subject to the new régime would also be computed on that part of the resources allocated to the agencies subject to the current régime, resulting in what may be called "double accounting". The consequences of this interpretation might be that: (a) the total costs of the successor arrangements would exceed the amounts provided for in the financial envelope for the fifth cycle and (b) the rate of support costs payable in the fifth cycle to some of the agencies subject to the new régime may exceed, under some circumstances, the rate which would have been payable (i.e., 13 per cent) had the current régime continued to apply to them in that period. UNDP considers that such consequences were not intended by the legislation. After lengthy discussions on the subject, the Administrator has formulated an interpretation which he believes is in accordance with decision 90/26 and will achieve its purposes. This interpretation was presented to the agencies in a meeting in November 1990. In reacting to the proposal of the Administrator, the five agencies expressed their view in the summary of the meeting, which reads as follows: "The overall magnitude of UNDP funding for TSS-1 and TSS-2 shown in [the table in annex II] ($124 million for 1992-1996) was viewed as close to meeting the minimum 'critical mass' required. The agencies expressed concern that the sum foreseen for TSS-2 may not be sufficient to cover the services envisaged." Further elaboration of the individual elements of the proposal are provided in the following paragraphs.

III. TECHNICAL SERVICES SUPPORT AT THE PROGRAMME LEVEL (TSS-1)

10. In paragraph 8 of decision 90/26, the Governing Council decided to establish, with effect from 1 January 1992, a new Technical Services Support facility at the programme level. This facility is to be used for supplementary financing of identified programme-level services, complementary to the regular budget functions currently carried out by the agencies. Following lengthy discussions with the agencies on the magnitude of TSS-1 and based on the principles enumerated in paragraph 9 above, the Administrator proposed in a meeting with the agencies in Geneva a financial level of $80 million for this purpose for the fifth cycle. In arriving at this figure, the Administrator was of the view that the Council intended to establish this facility at a level sufficient to achieve the purposes stated in paragraphs 8 and 9 of the decision. As the facility is to be established at the programme level and not at the project level, the potential for the double accounting problem referred to in paragraph 9 above, is not so direct nor so severe as it would be for a facility at the project level. However, adjustments must be made for that part of the resources carried over from the fourth cycle to the fifth cycle and for which continuation of support cost arrangements under the current régime could continue to apply. Based on these resources, the specified amount of $80 million was computed with the following in mind:

(a) All projects approved prior to 1 January 1992 and to be implemented during the fifth cycle could continue to be subject to reimbursement of support costs at the fixed rate of 13 per cent. In this context, it was assumed that approval rates would continue at normal levels;

(b) The five large agencies implement about 50 per cent of the UNDP core programme;

(c) Based on existing patterns, some 22.5 per cent of the programme to be implemented in the next cycle is likely to be approved prior to 1 January 1992 and thus will be subject to the 13 per cent reimbursement. This translates to $500 million of projects to be implemented by the five agencies during 1992-1996 and reimbursed at 13 per cent, amounting to $65 million in support cost earnings to them;

(d) TSS-1 would therefore be 2 per cent of programmable resources ($4.5 billion) minus $0.5 billion as per (c) above, i.e., $80 million. This figure was reflected in the table discussed with the agencies at a meeting in Geneva with the Administrator (see annex II).

11. The summary of the Geneva meeting with the agencies (annex II) also stated "it was recognized that the figures presented in the financial scenarios tabled by UNDP applied to the five agencies named in the decision. This means that the TSS-1 or TSS-2 amounts listed in the table would be available only to the five agencies participating in the new régime. The Geneva meeting also recognized "that the financial proposals tabled by UNDP could constitute a basis for a global solution. It was, however, felt that the content, scope and modalities by which the various facilities would be utilized were of overriding importance to reach a solution and needed to be clearly defined and elaborated during the consultative process". In

extensive follow-up consultations, the basic elements of the content, scope and modalities of TSS-1 were elaborated (see annex III). The text and charts in annex III establish basic principles in the management and operation of this facility. They include:

(a) The importance of TSS-1 as an important mechanism to support the development of government sectoral/subsectoral strategies and programmes. Furthermore, TSS-1 should be used as an opportunity to strengthen agency capacities to perform increasingly substantive upstream work, as previously had been called for by the governing bodies;

(b) Services to be provided by agencies under TSS 1 should be based on demand from Governments. A process which rationalizes and systematizes the establishment and assessment of demand, while leaving sufficient flexibility to deal with changing circumstances was discussed. This process may include use of national programme frameworks, or similar instruments, as available, as well as taking account of exercises such as national technical co-operation assessments and programmes (NATCAPs);

(c) The cost of technical services at the programme level will be shared between agency regular budgets and UNDP resources;

(d) Guidelines should be developed for use by resident representatives so that the benefits of this facility at the country level will be recognized and uniformly applied;

(e) TSS-1 resources will be made available to the five agencies for two-year periods based on a three-year forecast as called for in paragraph 9 of decision 90/26;

(f) The distribution of TSS-1 resources among the five agencies will be based initially upon their respective shares of indicative planning figure (IPF) expenditures during 1987-1990, as suggested by the agencies.

IV. TECHNICAL SERVICES SUPPORT AT THE PROJECT LEVEL (TSS-2)

12. Paragraph 10 of decision 90/26 deals with technical support from agencies at the project level (TSS-2) and the principles guiding the establishment of this facility. As noted earlier, the magnitude of the resources for this facility was subject to extensive discussions with the agencies who stated that the 2 per cent of programmable resources referred to in the decision apply to the totality of programmable resources. UNDP believes that the arguments advanced in paragraph 9 apply strongly to this facility which will be established at the project level. Therefore, UNDP believes that the applicable programmable resources should be based upon those resources attributable to the sectors of competence of the agencies concerned, regardless of execution modalities. In the fourth cycle, nationally implemented projects amount to some 10 per cent of programmable resources and projects implemented by the five agencies to 50 per cent of programmable resources. These translate to 60 per cent of programmable resources for the

cycle. Thus, TSS-2 has been calculated at $44 million, the details of which are shown in the footnote to the table in annex II.

13. Annex III and the accompanying charts provide an illustration of a method for the management of TSS-2 as well as possible sources of funding for the various services. The following would be the guiding principles for the management of TSS-2:

(a) TSS-2 funds would be centrally earmarked by UNDP to individual countries/programmes, in line with their respective IPFs for the first year. The uncommitted balance of TSS-2 earmarkings would, at year-end, revert to the central TSS-2 funds. The earmarking for subsequent years would be determined annually, in a flexible manner, by UNDP headquarters on the basis of experience and estimated needs;

(b) The need for technical services, to be funded from TSS-2, would be determined on a project-by-project basis, initially at the time of project formulation. Both the project and TSS-2 budgets would be prepared and approved at the same time and in accordance with UNDP-wide delegation of authority. Prior to project approval, resident representatives would seek the technical comments of the agency concerned in its fields of competence. As appropriate, this appraisal service would be eligible for TSS 2 funding;

(c) In preparing both the project and TSS-2 budgets, the resident representatives would, in consultation with the agency concerned, make an estimate of the technical services required in terms of work-months of services and cost them accordingly, based on standard costs, to be subject to revision at any time in line with emerging needs. It is understood that agency technical services of monitoring and evaluation would normally apply to all large-scale projects and projects of special complexity. Other projects would be subject to these services, as appropriate. These technical services could also be financed from project budgets, as appropriate;

(d) UNDP would provide to agencies, on a yearly basis, a report on the utilization of TSS-2 funds;

(e) It was noted that several sources of funds exist to finance technical services, as recognized in decision 90/26, including IPF through project budgets preparatory assistance, Special Programme Resources (SPR), the Project Development Facility (PDF) and now TSS-2. Greater access by agencies to preparatory assistance, particularly for nationally implemented projects and PDF will be secured.

V. IPF SUB-LINE FOR ADMINISTRATIVE AND OPERATIONAL SERIVCES

14. Paragraph 11 of decision 90/26 provides for the establishment of an IPF sub-line to finance administrative and operational support to projects, which previously had been housed in the support cost line and for this purpose, appropriated as a working hypothesis 10 per cent of country IPFs. Following analysis of the implementation of the various provisions of the decision, including the continuation of the basic elements of the current régime (13 per cent) to all except five agencies, the resources for this sub-line have been provisionally estimated on the basis of 60 per cent of country IPFs, namely the 50 per cent of the IPFs implemented by the five large agencies and 10 per cent implemented by Governments as indicated in paragraph 12 above. This amounts to $220 million and takes into consideration projects which are subject to reimbursement at 13 per cent as noted in paragraph 10 above. This amount equals five multiples of the magnitude of TSS-2, as the same principles of calculations apply.

A. Computation of resources for the IPF sub-line

15. The amount is arrived at as follows:

	Millions of dollars	
Total programmable resources	4 500	
To be implemented by small agencies subject to current régime (i.e., 40 per cent of total programmable resources)	1 800	
Balance		2 700 a/
Projects likely to be approved before 1 January 1992 for implementation in the fifth cycle (i.e., 22.5 per cent of total programmable resources)	1 000	
Of which, 50 per cent to be implemented by agencies subject to the new régime		500
Balance		2 200
10 per cent thereof		220 b/

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a/ Equal to 50 per cent of programmable resources implemented by five agencies and 10 per cent of programmable resources implemented by Governments.

b/ Five multiples of the magnitude of TSS-2 resources i.e., 5 x $44 million = $220 million.

16. The balance of the resources covering the 40 per cent of IPFs implemented by the smaller agencies, the World Bank and OPS will be funded from central resources. This will provide for simplicity of processing and handling of payments to the agencies, which will continue to be subject to the current régime.

17. Paragraph 11 of decision 90/26 affirms the responsibility of the Administrator to approve execution and implementation arrangements for all UNDP-assisted projects and to ensure that such arrangements are satisfactory, in accordance with the 1990 Consensus and existing practice; and requests the Administrator to report to the Governing Council at its thirty-eighth session on measures to ensure that execution and implementation arrangements are satisfactory, as well as on the possible role of the arrangements for technical support at the project level. These are two broad concepts with basic implications on the future of technical co-operation activities. Various modalities described in this report should lead to the establishment of satisfactory arrangements for execution and implementation, including the provision of adequate technical services by agencies. Nevertheless, considering the importance of the issues involved they will be referred to in more detail in the report to be submitted to the Governing Council at its thirty-eighth session (1991), in conjunction with the response to decision 90/21 on national execution.

B. Administrative and operational services

18. Paragraph 12 of decision 90/26 deals with the use of the sub-line for administrative and operational services (AOS). In discussion with executing agencies, it has been recognized that Governments could continue to use the specialized agencies of the United Nations for the provision of these services and/or opt to use governmental or other external agents for the purpose. In conjunction with such services to be provided by United Nations agencies, paragraph 14 of decision 90/26 contains a request to the Administrator to make proposals for the establishment of standard differential rates, including the possibility of lump sum payments for clusters of services related to AOS. The Governing Council also authorized the Administrator to commission, in consultation with the agencies concerned, an independent survey of the cost of particular services to help establish their relative cost. UNDP has held numerous consultations with the five agencies concerned on the subject in order to establish the terms of reference and a work plan for the study. In the process of these consultations, it was recognized by the agencies that updating the 20-year-old estimates of costs of services would not be useful in view of the situation as it has evolved. UNDP and the agencies agreed that the new study should be geared, to the extent possible, towards providing provisional results in time for making the required proposals to the Council at its thirty-eighth session (1991). The agencies and UNDP have collectively identified a consulting firm which specializes primarily in the development of cost allocations and overhead rates for governmental agencies. The consultants also have experience with conducting similar studies for United Nations organizations. Based on their expertise and experience as well as their agreement to meet a stringent timetable, UNDP and the agencies agreed on their selection to carry out a survey of the cost of particular services study as mandated by the Council.

19. Initial data collection by agencies is expected to begin in February 1991 and will be based on the methodology to be proposed by the consultants. The consultants will undertake the necessary data analysis, with a view to establishing differential rates for each agency or all agencies collectively for the costs of particular services, to assist the Administrator in making specific proposals to the Governing Council. In joint consultations with agencies and the consultants, it has been agreed that the rate structure will consist of a standard rate for each of several clusters of services provided by the agencies. These services will be based mainly on the major components of a project such as recruitment and placement of personnel, procurement of equipment, placement and administration of fellowship, etc. The consultant group will work with each agency in identifying the factors mentioned above. While it is intended that provisional rates be available in time for the Administrator to provide proposals to the Council at its thirty-eighth session, the final rates will be available only in the last quarter of 1991. There was agreement with all concerned that consistent and uniform methodology will be used throughout with a view to the determination and application of differential rates. It is expected that the results of the survey will also be used for costing various kinds of technical support services.

20. In paragraph 15 of decision 90/26, the Governing Council considers that the rate of compensation for AOS paid to agencies should not, on the average, exceed 10 per cent of their project value. This matter will be examined with the agencies and a workable system to administer these payments will be proposed to the Council at its thirty-eighth session.

21. In paragraph 13 of decision 90/26, the Governing Council requests the Administrator to make proposals at the thirty-eighth session for the charging of AOS in intercountry and SPR projects. As approximately 80 per cent of these projects are implemented by the small technical agencies, by the World Health Organization (WHO), the World Bank and OPS, whatever compensation structure will be applicable for these agencies will apply for intercountry and SPR projects implemented by them. The other 20 per cent of the projects in these categories are implemented by the five larger agencies. These will be subject to the new régime. An IPF sub-line will accordingly need to be established for this purpose. Proposals along these lines will be developed further in time for submission to the Council at its thirty-eighth session.

C. Flexibility provisions

22. Paragraph 16 of decision 90/26 deals with flexibility provisions and contains a request to the Administrator to make specific proposals, in consultation with the agencies concerned, on the operation of such a system, taking account of inflation since 1982; the undesirable effect of sudden steps in computing rates; and the budgetary capacities of the agencies involved. UNDP has held several consultations with the agencies concerned and, together with them, has developed proposals designed to meet the Governing Council's objectives. Table 2 of annex III shows these proposals and their financial consequences. The following points may be noted:

(a) The assessment of inflation since 1981 requires revision of the upper limit for flexibility entitlements from $15 million to $24 million. This revised limit has been arrived at on the basis of a weighted average of inflation rates since 1982 in the cities where agencies receiving flexibility are located;

(b) The undesirable effect of sudden steps in computing rates has been removed by using a system of declining marginal rates in the schedule, rather than a single overall rate applicable to all delivery, as is currently the practice. The proposed methodology is reflected in table 2 of annex III;

(c) The cost of flexibility arrangements is expected to be substantially higher in the next cycle, partly as a result of the proposed increased limit of flexibility from $15 to $24 million and partly as a result of the application of the flexibility arrangements to United Nations units other than the Department of Technical Co-operation for Development (UNDTCD). In the fourth cycle, these units were not eligible since all units under the aegis of the United Nations were considered as part of a single entity, thus far exceeding the limit on flexibility payments. However, in decision 90/26, UNDTCD is designated as one of the agencies to be subject to the new régime. As such, some of the other constituent parts of the United Nations which will be subject to the current arrangements may come under flexibility arrangements since their individual programme delivery will fall under the upper limit for flexibility eligibility;

(d) As indicated in table 2 of annex III, the estimated costs of the flexibility provisions in the fifth cycle would amount to $27.8 million under this revised scheme. Of this amount, $10.1 million would be applicable to the agencies currently entitled to flexibility while the balance of $17.7 million would be applicable to the additional agencies which were not entitled to flexibility hitherto.

D. Currency fluctuations

23. Paragraph 17 of decision 90/26 deals with exchange rate fluctuations. UNDP has presented proposals on the subject to the agencies and has already held preliminary discussions with some of the smaller agencies. These discussions are continuing. It is intended that the matter will be analysed in detail within the framework of the Consultative Committee on Administrative Questions (Financial and Budgetary Questions (CCAQ) (FB)), with a view to formulating proposals before the thirty-eighth session of the Governing Council.

E. UNDP trust funds

24. Pursuant to paragraph 18 of decision 90/26, the Administrator will submit to the Governing Council at its thirty-eighth session proposals for the charging of support costs on projects financed by UNDP trust funds or other funds under his responsibility. The proposals will also deal with charges to cost-sharing contributions.

F. Transitional arrangements

25. Paragraph 20 of decision 90/26 deals with transitional arrangements. The Administrator considers that the financial package discussed with the agencies in Geneva (see annex II) provides adequate transitional safeguards for the agencies, in particular for the next biennium, 1992-1993. As the data in annex III shows, current estimates are that the income of the five agencies for the next biennium will approximate that which the agencies would have received had the current régime continued in the fifth programming cycle. However, the agencies at the December 1990 meetings in New York stated that in view of the structural and financial implications resulting from the application of the new arrangements, more specific and adequate transitional measures should accompany the implementation of the successor arrangements.

G. Cost-measurement system

26. Paragraph 21 of decision 90/26 contains a request to the Administrator to prepare a report, in consultation with the agencies, to be submitted to the Governing Council at its thirty-ninth session as to the feasibility, benefits and costs of introducing a generally acceptable and uniform cost-measurement system. It is intended that the consultant firm engaged to make the study on the differential rate structure, also provide information on the potential costs and benefits of a cost-measurement system.

H. Monitoring and evaluation

27. Proposals for the independent monitoring and evaluation of the new arrangements as requested in paragraph 23 of decision 90/26 could be made upon determination of the methods of work of the new arrangements. The Administrator expects to submit such proposals to the Governing Council at its thirty-eighth session.

I. Further considerations

28. The Administrator intends to continue his close consultations with the agencies in order to conclude arrangements for the basic elements of the new régime. The introduction of the new arrangements will require a substantial amount of work and preparation at agency headquarters, UNDP field offices and within Governments. Detailed guidelines on the new system will need to be drafted and explained to all concerned. This will require a considerable amount of work to help ensure a smooth introduction of the new system.

29. In decision 90/26 the Administrator was mandated to undertake very extensive and detailed consultations with agencies. Furthermore, he was requested to commission a study on the differential rate structure and on the feasibility, benefits and costs of a cost-measurement system. However, the decision did not provide explicit financial authority for these purposes. The Administrator has

provided the services of two senior officials on a full-time basis for the follow-up action. The cost of one of these officials is provided from the core budget. The services of the other official were provided for five months in 1990 from the support cost-line. In 1991, these services will be charged to the core budget. Financial provision needs to be made for the following:

	$
Professional staff services (5 months)	60 000
Secretarial support (12 months)	50 000
Travel to meetings with agencies	60 000
Consultants for the rate study and cost-measurement system review	220 000
Miscellaneous and contingencies	30 000
	420 000

The Administrator requests authorization to charge up to $420,000 to the support cost line for the purposes above.

Annex I

UNDP CONSULTATIONS WITH AGENCIES

September 1990

Consultative Committee on Administrative Questions/Finance and Budgetary: information session with all agencies

Joint meeting in Geneva with the representatives of the five large agencies

Joint meeting in Geneva with the smaller agencies

Individual meetings in Geneva with ILO, WMO and ITU

Meeting in Rome with FAO

October 1990

Informal information meeting with members of the Consultative Committee on Substantive Questions

Meeting with the Department of Technical Co-operation for Development (UNDTCD)

Meeting in Montreal with ICAO

Information meeting with the Organizational Committee of the Administrative Committee on Co-ordination and later with the Director-General for the Department of International Economic Co-operation

Discussions at the Administrative Committee on Co-ordination

Individual meetings in Vienna with UNIDO and IAEA

Joint meeting with the five large agencies in Vienna

November 1990

Individual meetings with WIPO, ITC and UNCTAD in Geneva

Joint meeting with the five large agencies in Geneva with the Administrator

December 1990

Informal meeting in Vienna with representatives of the large agencies (DTCD unable to attend)

Meeting in Rome with representatives of the large agencies and the consultants on the differential rate structure (UNDTCD and UNIDO unable to attend)

Four days of informal meetings with representatives of the five large agencies in New York

Informal meeting with representatives of the smaller agencies in New York

Exchange of information and discussions with all the agencies during the Inter-Agency Consultative Meetings in New York

Annex II

SUCCESSOR ARRANGEMENTS FOR AGENCY SUPPORT COSTS

Notes on a meeting between UNDP and the big five agencies

(ILO, FAO, United Nations, UNIDO, UNESCO)

(16-17 November 1990, Geneva)

Major points discussed

1. It was recognized that the financial proposals tabled by UNDP in scenario 3 could constitute a basis for a global solution. It was, however, felt that the content, scope and modalities by which the various facilities would be utilized were of overriding importance in reaching a solution and needed to be clearly defined and elaborated during the consultative process. Both the agencies and UNDP are committed to this process.

2. It was recognized that the figures presented in the financial scenarios tabled by UNDP applied to the five agencies named in the decision.

3. As shown in the scenarios, the agency support costs of all projects approved before January 1992 could continue to be subject to the old régime until their termination during the fifth cycle. It was assumed that approval rates would continue at normal levels.

4. The overall magnitude of UNDP funding for TSS-1 and TSS-2 shown in the table to this annex ($124 million for 1992-1996) was viewed as close to meeting the minimum critical mass required. The agencies expressed concern that the sum foreseen for TSS-2 may not be sufficient to cover the services envisaged.

5. It was recognized that TSS-1 should be used as an opportunity to strengthen agency capacity to perform increasingly substantive upstream work, as previously had been called for by the governing bodies. Guidelines would be required for use by resident representatives, so that the country-level benefits of this facility would be both uniformly recognized and rationally employed.

6. It was agreed that the agencies were to be the normal partners of UNDP in the implementation of TSS-2. TSS-2 would be a distinct facility financed and managed centrally. The Administrator indicated that he will delegate authority for the use of this facility to the field. Agencies viewed TSS-2 as an essential means for Governments and UNDP to draw upon their technical capacities and experience in support of national execution. Categories of services covered by TSS-2 and modalities will be elaborated in a working paper currently under discussion.

7. The meeting welcomed the progress made in the joint selection and appointment of a consulting firm to conduct the cost survey, as authorized in paragraph 14 of decision 90/26.

8. The concept presented at the meeting by UNDP of full loading of costs of project inputs and related support services into project budgets will be examined further.

9. In the context of administrative and operational sources, and the selection of execution and implementation modalities under the new arrangements, the continuing importance of appropriate country-level consultations between Governments, UNDP and the relevant agencies was emphasized.

Estimated income for the big five agencies from UNDP sources during the fifth cycle

(Millions of dollars)

	1992	1993	1994	1995	1996	Total fifth cycle
TSS-1	11.3	15.8	16.9	18.0	18.0	80.0
TSS-2	4.1	8.6	9.7	10.8	10.8	44.0
Projects approved before 1 January 1992	46.6	14.6	7.3	0.0	0.0	65.5
Total a/	59.0	39.0	33.9	28.8	28.8	189.5
Income if old regime is continued in fifth cycle (i.e. at 13 per cent rate)	58.2	58.2	58.2	58.2	58.2	290.9

a/ Excludes potential earnings from IPF sub-line for AOS.

Note

The amounts shown against TSS-1 and TSS-2 were computed as follows:

	1992	1993	1994	1995	1996	Total fifth cycle
TSS-1 at 2 per cent of programmable resources (averaged over years)	18	18	18	18	18	90
Less: adjustment for projects approved before 1 January 1991	(6.7)	(2.2)	(1.1)	-	-	(10)
Total	11.3	15.8	16.9	18.0	18.0	80.0
TSS-2 at 2 per cent of 50 per cent of programmable resources	9	9	9	9	9	45
Add: 2 per cent of programmable resources allocated to government-executed projects in fifth cycle	1.8	1.8	1.8	1.3	1.8	9
Less: adjustments for projects approved before 1 January 1992	(6.7)	(2.2)	(1.1)	-	-	(10.0)
Total	4.1	8.6	9.7	10.8	10.8	44.0

Annex III

SUCCESSOR ARRANGEMENTS FOR AGENCY SUPPORT COSTS

Notes on a meeting between UNDP and the agencies

(ILO, FAO, United Nations, UNIDO and UNESCO)

Major points discussed

I. MEETING WITH THE FIVE AGENCIES

(10-13 December 1990)

A. Technical services support at the programme level (TSS-1)

1. The establishment of TSS-1 by the Governing Council provides an opportunity for expanding and systematizing the upstream sectoral work and policy advice performed by the United Nations system for the benefit of the developing countries. As envisaged by General Assembly resolution 44/211, the existence of a national programme framework, or some similar instrument would facilitate the assessment of the demand for such work.

2. A United Nations system response to this programme framework would, inter alia, incorporate specific requests from Governments for sectoral/subsectoral studies; assessments of technical co-operation needs through a NATCAP exercise (if one has been conducted in the country); other needs emerging from country programmes; and regional and subregional requirements.

3. Several sources of funding exist to finance the upstream work described above, including agency regular budgets, TSS-1 and, in some special cases, SPR and IPF. The activities themselves can be grouped under three categories: (a) infrastructure support at the programme level; (b) intelligence in support of programming functions; and (c) technical advice to member Governments and the United Nations. Of these, (a) and (b) can be described as global activities in large part covered out of agency regular programme activities whilst (c) relates to regional and country specific activities. As circumstances warrant, TSS-1 will be used primarily for the third group and secondarily for the others (see chart).

4. UNDP and agencies will jointly develop a work plan for the activities to be financed by TSS-1. This work plan will be country and region specific and will cover a two-year period based on three-year forecasts.

5. A single umbrella document will be prepared by each agency which incorporates the work plan and a proposed budget covering the resources allocated to the agency. For preparing the latter, proforma costing of individual components of the work plan may be necessary. The work plan is subject to annual reviews and modifications, as necessary. The agency will have the flexibility during the year to make changes to the work plan in response to ad hoc requirements, after consultation with UNDP.

6. Disbursements against TSS-1 will be made by UNDP as part of the regular remittances to agencies, in response to their forecasted cash requirements.

7. Monitoring of the TSS-1 activities will be through output monitoring against the work plan. Annual progress reports will be provided by the agency, centrally, to UNDP. An ex-post facto financial report will be provided annually by the agencies to show the actual use of TSS-1 funds.

8. Annual and as necessary ad hoc reviews will be held between UNDP and each of the agencies concerned to consider and approve possible modifications to the work plan.

9. The distribution of TSS-1 among the five agencies will be initially on the basis of IPF expenditure ratio shares for 1987-1990, as suggested by the agencies.

B. Technical services support at the project level (TSS-2)

10. It was noted that several sources of funds exist to finance technical services, as recognized in decision 90/26, including IPF through project budgets, preparatory assistance, SPR, PDF and now TSS-2. Greater access by agencies to PA, particularly for nationally implemented projects, and PDF will be secured.

11. A review of the various stages of the project cycle was made to identify the need for technical services at each stage and the possible sources of financing. The chart shows these services, possible funding sources and the modalities to be employed to access those funds. A number of technical services have been identified in support of both agency implemented and nationally implemented projects.

12. TSS-2 funds will be centrally earmarked by UNDP to individual countries/programmes, for the first year in line with their respective IPFs. The uncommitted balance of TSS-2 earmarkings will, at year-end, revert to the central TSS-2 funds. The earmarking for subsequent years will be determined annually, in a flexible manner, by UNDP headquarters on the basis of experience and estimated needs.

13. The need for technical services, to be funded from TSS-2, will be determined on a project-by-project basis, initially at the time of project formulation. A request for funding would be made through a special form designed for this purpose. Both the project and TSS-2 budgets will be prepared and approved at the same time and in accordance with UNDP-wide delegation of authority. Prior to project approval, resident representatives will seek the technical comments of the agency concerned in its fields of competence. As appropriate, this appraisal service will be eligible for TSS-2 funding.

14. In preparing both the project and TSS-2 budgets, the resident representative will, in consultation with the agency concerned, make an estimate of the technical services required in terms of work-months of services and cost them accordingly, based on standard costs to be established by the agency. The TSS-2 document and budget are subject to revision at any time in line with emerging needs. It is

understood that agency technical services of monitoring and evaluation would normally apply to all large-scale projects and projects of special complexity. Other projects would be subject to these services, as appropriate. These technical services could also be financed from project budgets, as appropriate.

15. UNDP will provide to agencies, on a yearly basis, a report on utilization of TSS-2 funds.

16. The chart shows the various steps involved in the management of TSS-2 funds.

C. Administrative and operational services

17. As requested in paragraph 10 of decision 90/26, the Administrator has appointed a consultant firm, David M. Griffith and Associates, who were selected jointly by the agencies and UNDP, to conduct an independent survey of the cost of particular services of a cross-section of agencies to help establish their relative cost and to advise on the establishment of a standard differential rate system for charging administrative and operational costs. The consultants have been briefed by the agencies and UNDP jointly and are in the process of visiting individual agencies to conduct their study. A preliminary report is expected to be available by 31 January 1991, after which data collection for the cost surveys will be undertaken by the agencies concerned.

D. Transitional arrangements

18. Agencies stated that in view of the structural and financial implications of the application of the new arrangements, more specific and adequate transitional measures should accompany the implementation of the successor arrangements, as requested in paragraph 20 of Governing Council decision 90/26.

II. MEETING WITH AGENCIES WHICH WILL CONTINUE UNDER THE CURRENT REGIME

(11 December 1990)

19. A meeting was held on 11 December 1990 with the agencies which will continue under the current régime. Two major issues relating to flexibility provisions and currency fluctuations were discussed. The following points emerged.

A. Flexibility provisions

20. It was agreed that a weighted average of cost-of-living rates in the locations where the headquarters of agencies currently receiving flexibility would be an appropriate measure to use in recomputing the flexibility schedule (expressed in dollars) in response to paragraph 16 of decision 90/26.

21. The flexibility schedule has also been revised to eliminate the undesirable effect of sudden steps in computing rates, as required by paragraph 16 of decision 90/26.

22. The agencies concerned are in agreement with the schedules (see table 2).

B. Safeguards against currency fluctuations

23. In accordance with paragraph 17 of decision 90/26, UNDP has developed a proposed methodology for safeguarding the agencies concerned from currency fluctuations impacting the level of support-cost earnings.

24. The UNDP proposal is to allow the concerned agencies to opt into the following system, which applies a moving average exchange rate to calculate support-cost payments.

25. All existing accounting and reporting procedures would continue as at present using the appropriate United Nations rates of exchange to record expenditures and support-cost earnings on a monthly basis. At year-end, the support-cost earnings in the national currency of the headquarters of the agency concerned would be calculated by applying the average United Nations exchange rate for the year to the recorded dollar support-cost earnings for the year.

26. This amount would then be compared with the amount in local currency calculated by applying the moving average United Nations exchange rate for the five previous years to the same dollar support-cost earnings. If the latter amount is greater than the former amount, UNDP will credit the concerned agency with the difference in local currency. If the former amount is greater than the latter, the concerned agency will credit UNDP with the difference in local currency. In no case will the agency concerned be called upon to credit UNDP with any amount which would bring total credits by such agency in excess of total amounts credited by UNDP to such agency since the inception of the scheme.

27. The agencies concerned are in general agreement with this approach, subject to further examination by their finance departments. Further work is needed on developing detailed operating procedures for this system.

Chart 1

TSS-1

Assessment of demand

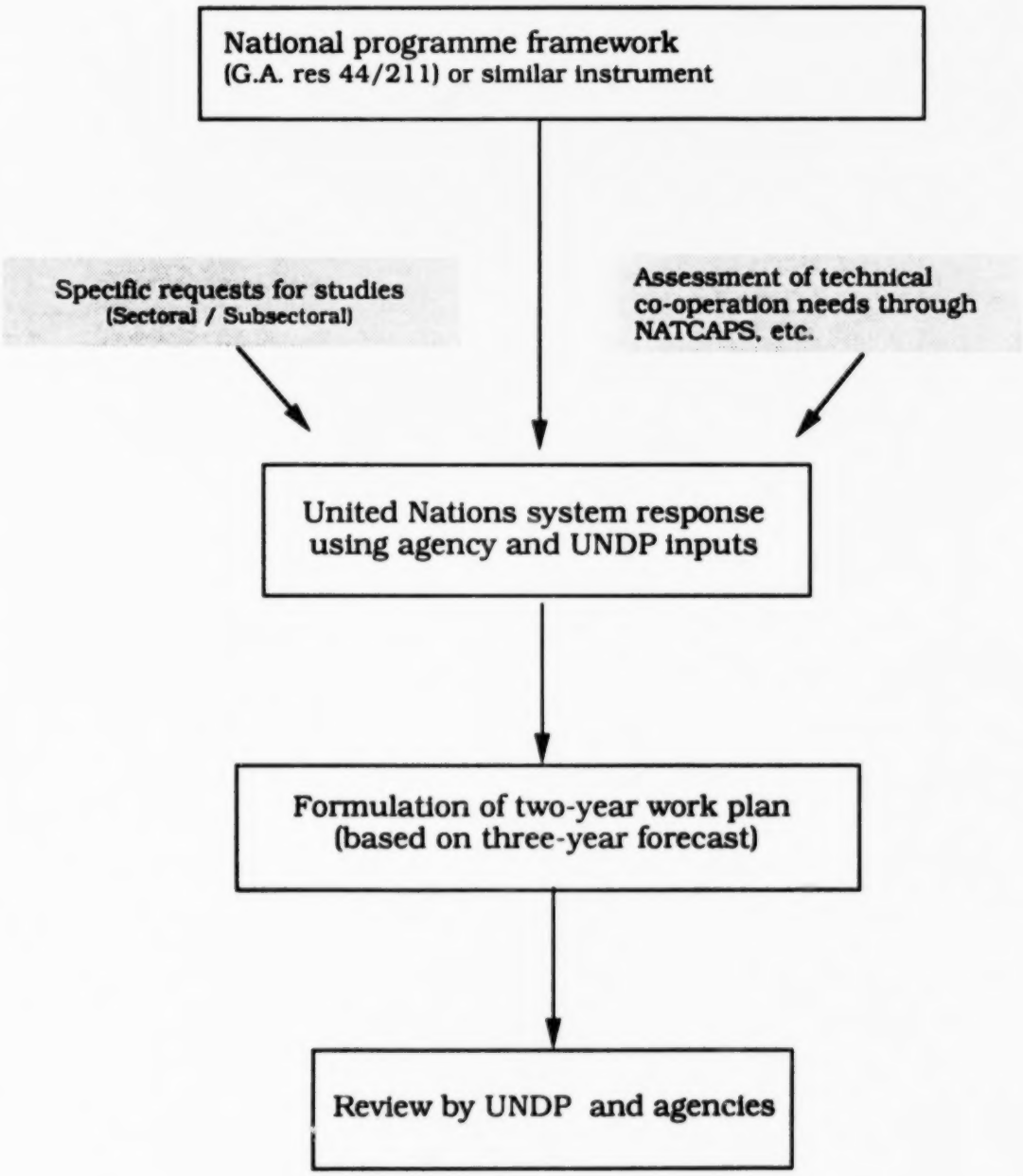


Chart 1 (continued)

TSS-1

Identification of funding arrangements

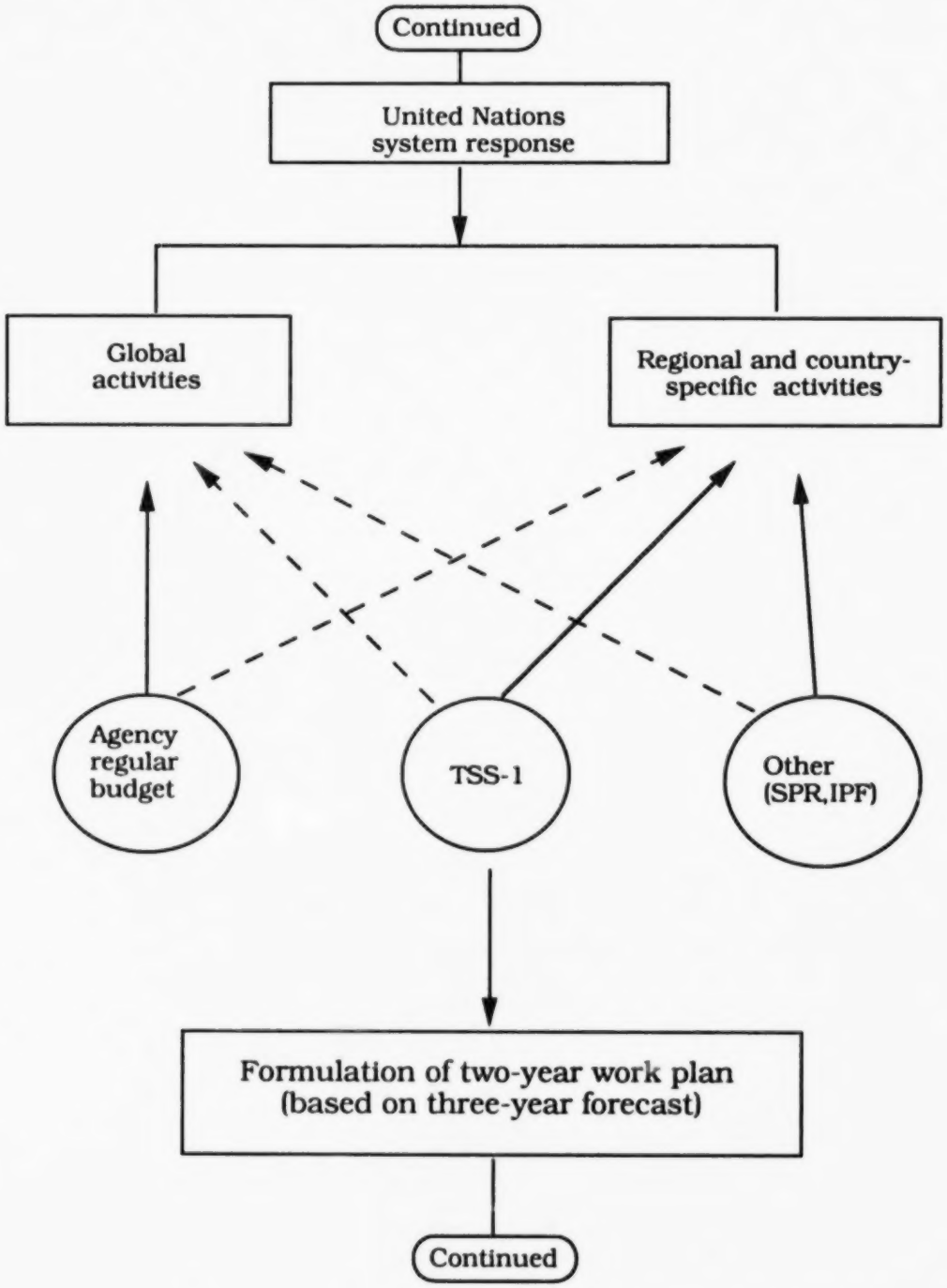


Chart 1 (continued)

TSS-1

Implementation

Single umbrella document
per agency (inc. budget)

Disbursements
(as part of regular remittances to agencies)

Monitoring, reporting and review

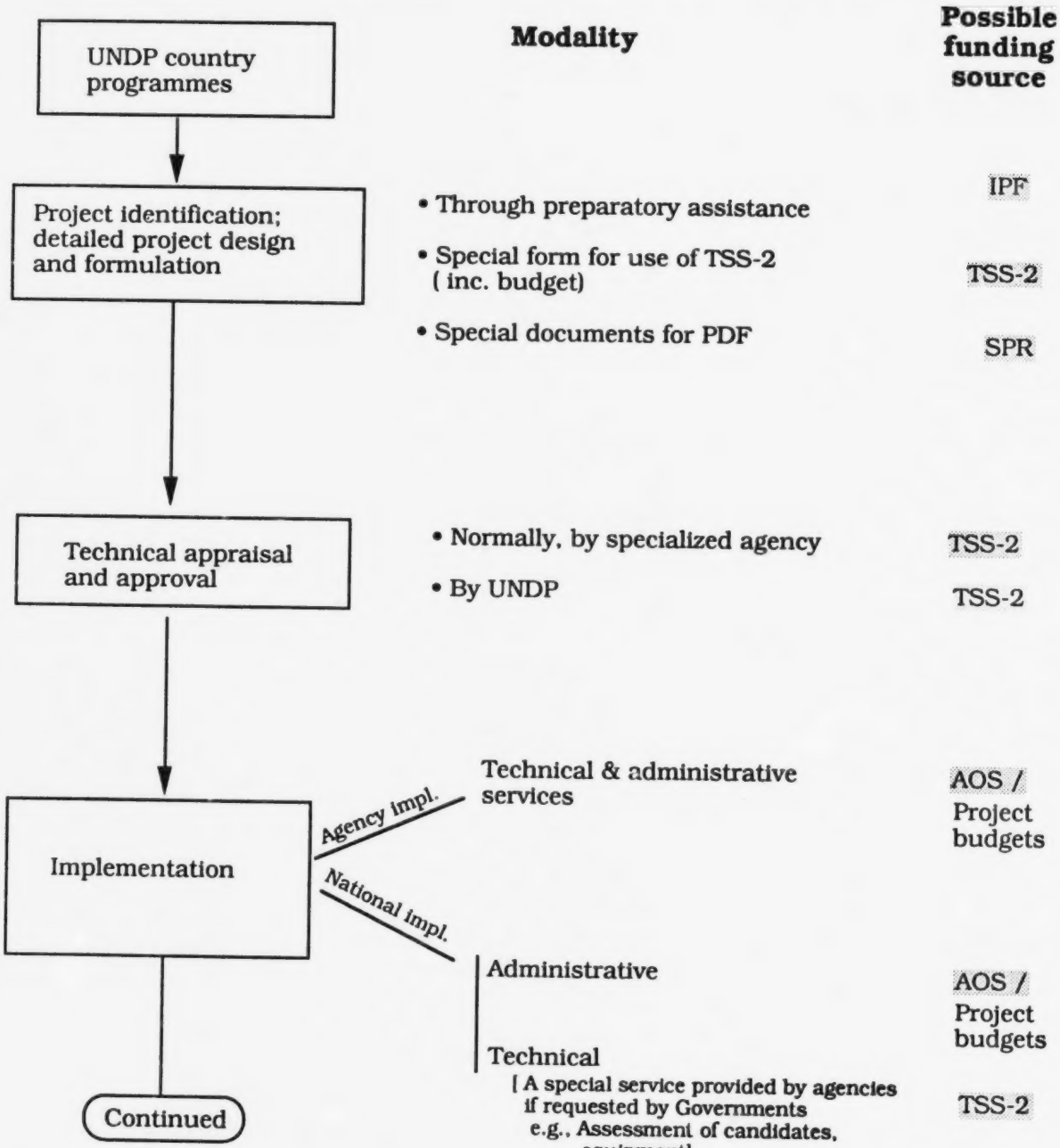
Substantive progress reports

Annual reviews
leading to
possible revision of work plan

Ex-post reporting for financial purposes

Chart 2

TSS-2


UNDP country programmes
Project identification; detailed project design and formulation
Technical appraisal and approval
Implementation
Continued
Agency impl.
National impl.
Modality
Possible funding source
• Through preparatory assistance
IPF
• Special form for use of TSS-2 (inc. budget)
TSS-2
• Special documents for PDF
SPR
• Normally, by specialized agency
TSS-2
• By UNDP
TSS-2
Technical & administrative services
AOS / Project budgets
Administrative
AOS / Project budgets
Technical
[A special service provided by agencies if requested by Governments e.g., Assessment of candidates, equipment]
TSS-2

/...

Chart 2 (continued)

TSS-2

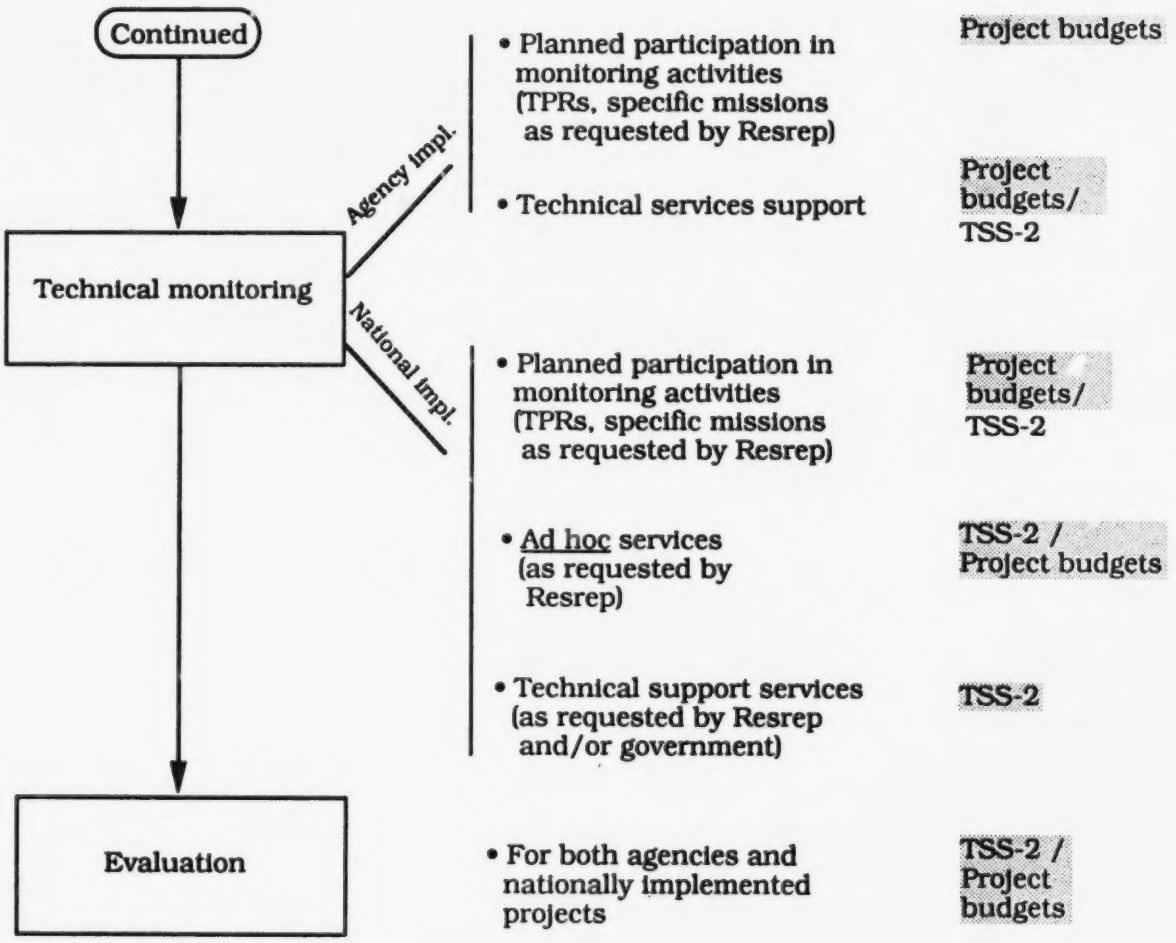

Modality
Possible funding source
Continued
Technical monitoring
Agency impl.
National impl.
Evaluation
• Planned participation in monitoring activities (TPRs, specific missions as requested by Resrep)
Project budgets
• Technical services support
Project budgets/ TSS-2
• Planned participation in monitoring activities (TPRs, specific missions as requested by Resrep)
Project budgets/ TSS-2
• Ad hoc services (as requested by Resrep)
TSS-2 / Project budgets
• Technical support services (as requested by Resrep and/or government)
TSS-2
• For both agencies and nationally implemented projects
TSS-2 / Project budgets

Chart 2 (continued)

Management of TSS-2

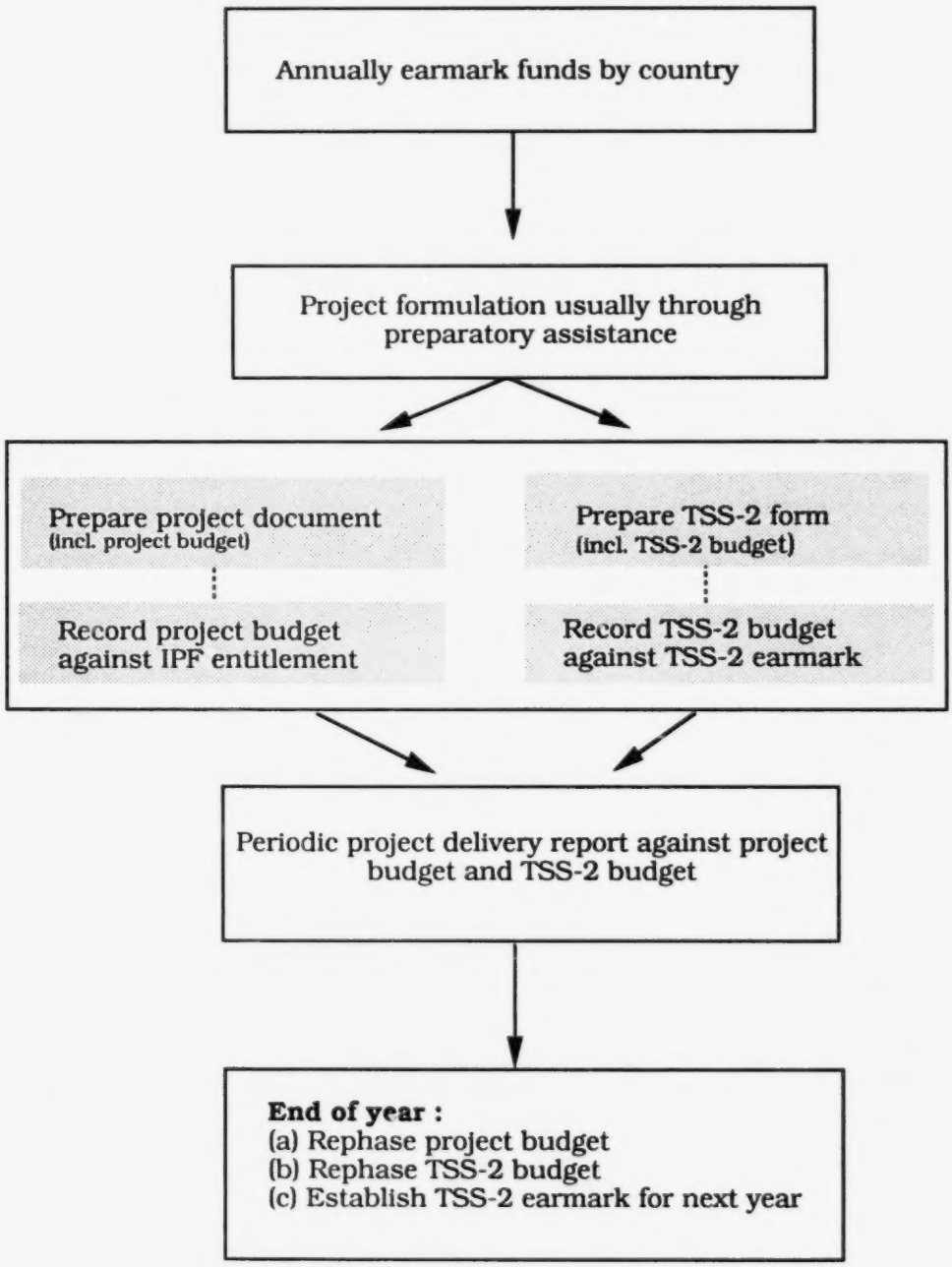

Annually earmark funds by country
Project formulation usually through preparatory assistance
Prepare project document (incl. project budget)
Record project budget against IPF entitlement
Prepare TSS-2 form (incl. TSS-2 budget)
Record TSS-2 budget against TSS-2 earmark
Periodic project delivery report against project budget and TSS-2 budget
End of year :
(a) Rephase project budget
(b) Rephase TSS-2 budget
(c) Establish TSS-2 earmark for next year

Table 1. Current support costs flexibility arrangements
(As per dec. 81/40)

Delivery (millions of dollars)	Percentage rate of reimbursement	Agencies currently entitled to flexibility	Additional agencies entitled under successor arrangements (dec. 90/26)	Total support cost arrangements
0 - 5	22	UPU WIPO IAEA WTO	ESCWA ECE ECLAC	
5 - 10	19	IMO	ESCAP ECA	
10 -11	18			
11 - 12	17			
12 - 13	16			
13 - 14	15			
14 - 15	14	WMO[a/]	UNCHS UNCTAD ITC	
≥15	13			
Total estimated support cost flexibility : 5th cycle		16.5	45.3	61.8
Less 13%		10.2	37.4	47.6
Difference = flexibility payments		6.3	7.9	14.2

a/ Lost entitlement in 1989

Agencies not entitled to flexibility

World Bank, IMF & development banks
WHO
OPS, UNV
ICAO
ITU

/...

Table 2. Proposed support costs flexibility arrangements
(Revised)

	Percentage rate of reimbursement				
Delivery (millions of dollars)	**Marginal rate**	**Effective rate**	**Agencies currently entitled to flexibility**	**Additional agencies entitled under successor arrangements (dec. 90/26)**	**Total support cost arrangements**
0 - 8	22	22	UPU IAEA WTO WIPO **IMO**	ESCWA ECE ECLAC **ECA**	
8 - 9	19	21.67			
9 - 10	16	21.10		ESCAP	
10 - 11	14	20.45			
11 - 12	13	19.83			
12 - 13	12	19.23			
13 - 14	11	18.57			
14 - 15	10	18		UNCHS UNCTAD ITC	
15 - 16	9	17.44	WMO		
16 - 17	8	16.88			
17 - 18	7	16.33			
18 - 19	6	15.79			
19 - 20	5	15.25			
20 - 21	4	14.71			
21 - 22	3	14.18			
22 - 23	2	13.65			
23 - 24	1	13.13			
≥ 24	0	13			
Total estimated support cost flexibility : 5th cycle			29.2	54.1	84.3
Less 13%			19.1	37.4	56.5
Difference = flexibility payments			10.1	17.7	27.8